



# Review of Performance of Indian Oil Corporation- Post Disinvestment Scenario

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## Abstract-

A large number of PSUs were developed across industries, and they have played an important role in the country's overall economic growth of India. But, in the late 1980s, a series of problems in several public enterprises began to emerge. The privatization of public-sector companies was advocated in the New Industrial Policy of 1991. As a result, the government declared in its July 24, 1991, Industrial Policy Statement that it would disinvest a portion of its stake in selected PSEs. For privatization, the government has selected the disinvestment route, which involves selling public-sector shares to the private sector and the general public. Since then so many years have been passed and it is quite interesting to know now whether those objectives are fulfilled or not. The current study aims to investigate this aspect with the help of the performance analysis of IOCL.

This research aims to determine the effect of disinvestment on the efficiency of IOCL, a Central Public Sector Enterprise. The findings demonstrate an increase in the company's efficiency using statistical methods such as correlation and t-test.

**Key Words-** Disinvestment, Performance Analysis, PSE, IOCL



## Introduction

Following independence, public-sector-driven economic practices evolved to speed up the pace of growth. India's public sector enterprises (PSEs) have made significant contributions to the country's economic base. Whereas in the late 1980s, several issues began to emerge in many public enterprises. Their insufficient productivity growth, weak project management, over-manning, lack of sustained technical up-gradation, and inadequate commitment to research and development, were all major concerns. As a result, many PSE's have become a burden on the economic system and put a strain on the exchequer. The new policy approach adopted in the year 1991 in a form of Disinvestment changed the entire outlook towards PSE's. In today's, scenario there is an increasing movement toward less government involvement in the economy and more dependence on the private sector to provide a range of services. Disinvestment in India is a process to reduce the government's shareholding from the PSE's. This process is targeted at minimizing the government's financial burden from inadequate and underperforming PSUs as well as improving public finance. It promotes efficiency through greater competition and market discipline while also assisting in the depoliticization of non-essential resources. Thereby, Disinvestment, as a part of the reform process has empowered the public sector to increase its efficiency and become more responsible and accountable to economic growth. The 1991 New Industrial Policy called for the privatization of public-sector enterprises. As a result, the government announced in its Industrial Policy Statement of July 24, 1991, that it would disinvest a portion of its holdings in selected PSEs, but that there would be no limit to the amount of disinvestment (GoI, 1991). The government has chosen the disinvestment path for privatization, which entails selling public sector equity to the private sector and the general public. Disinvestment was envisioned as a crucial step in resolving such a dire situation; clearly, it entailed more than just selling government equity at the right price. It was supposed to help the Indian economy develop by encouraging competition, which would lead to cost savings, higher quality, and increased operating performance. And overall, Disinvesting government equity in PSEs has many social, fiscal, and political consequences. (Ray and Maharana, 2002). Privatization, according to Bortolotti et al., 2002, has a favourable effect on company productivity and thereby profitability. This study's results show that partly privatized SOEs outperform completely government-owned SOEs in terms of financial efficiency. (Hill (2000) The importance of Disinvesting public sector enterprises in India is justified on the following grounds: (Gupta, 1998).

1. A solution to the issue of low viability and inefficiency of PSEs.
2. No more government meddling in economic decisions.
3. Government reserves are increased by the selling of PSE shares.
4. Freedom from fiscal pulls and stresses caused by PSE's losses.
5. A solution to issues such as a lack of control, insufficient managerial incentives, and so on.
6. Converting the 'public sector' to the 'people sector' by selling PSE securities to the general public, and
7. Keeping up with the global economic liberalization wave

IOCL is a government-owned corporation founded on June 30, 1959. It is a "Maharatna" public sector enterprise under the Ministry of Petroleum and Natural Gas' overall control. The core business of IOCL is the refining, transportation, and marketing of petroleum products and petrochemicals and the total processing capability of the Indian Oil Group is 80.2 million metric tonnes per year (MMTPA). It is one of the world's main pipeline networks, with a throughput capacity of 94.56 MMTPA for crude oil and refined products and 21.69 MMSCMD for gas. With sales of 78.54 million metric tonnes (MMT) in 2019-20, Indian Oil controls approximately half of India's petroleum products industry. Indian Oil controls over 32% of national refining capacity and 71% of downstream market pipeline throughput capacity. Currently, the company is ranked 151<sup>st</sup> among the world's largest corporates in Fortune's 'Global 500' listing. In the year 1995, the Government of India (GOI) disinvested 10% of IOCL's paid-up equity capital (24,27,95,248) shares each of FV Re. 10 out of its 68.57 per cent shareholding through the "Offer for Sale of Shares by Promoters by Stock Exchanges"



(OFS) process, as per Securities and Exchange Board of India (SEBI) Rules and Regulations. Then the Government of India disinvested 3,32,76,129 equity shares in Indian Oil in January 2017 and 1,24,64,272 equity shares in March 2017 to CPSE ETF (an exchange- traded fund that invests in PSU stocks). As a result, the President of India's share in Indian Oil's equity share capital has been reduced to 57.34 per cent. (IOCL- Annual Report 2016-17)

## Literature Review

For 61 firms from 18 countries, Megginson et al. (1994) contrasted pre- and post-privatization financial and operational results three years after privatization with those three years before. Since privatization, they found substantial improvements in profitability, productivity per employee, capital investment, and overall jobs. According to Van der Eng (2004), Indonesian SOEs continued to face low profitability, overstaffing, unfocused activities, and low efficiency. The results of this analysis showed that partly privatized SOEs outperform completely government-owned SOEs in terms of financial efficiency. Siregar (2002), maintained that professionally run businesses are commonly thought to be more cost- effective, resulting in higher efficiency. As per T. G. Arun et al. (2010), the subject- matter of their study was the disinvestment of public sector enterprise (PSE) shares in India since 1991. They found that the low performance of PSEs heightened the urgency of change within the wider policy of economic liberalization to address India's growth strategy's perceived flaws. The key goal of disinvestment, according to the study, had been to reduce public sector borrowing requirements at the expense of consolidation and rationalization of PSEs in particular and the public sector as a whole. In his work, Lawrence J. Truitt (1996) explored how airport privatization had been a divisive topic, with strong points from both sides of the debate, and discussed many airports privatization models. According to the author, the most aggressive method of privatization—complete divestiture—was unlikely to yield the gains claimed by its advocates. According to the researchers, the most aggressive method of privatization—complete divestiture—was unlikely to yield the gains claimed by its advocates. Less extreme privatization models, on the other hand, maybe useful for future airport ownership and service. Given the wide variety of airport types in the United States system, the author argued that no particular model is adequate. Phukon A. et al. (2020) their paper aimed to examine the effect of privatization on the success of India's central public sector enterprises empirically. It was also being investigated if privatization is a necessary or adequate condition for improving the output of central government enterprises. Privatization increased firms' financial and operating efficiency greatly, according to the research. Arnold et al. (2008) showed that there is a strong and significant empirical relation between growth in service reform and industrial productivity. They also looked at the relative impact of change in each of the service sectors on manufacturing company productivity. And discovered that banking and telecommunications liberalization had the greatest productivity benefits on manufacturing enterprises over time. Parker (2004) argued that successful privatization necessitates a competitive and regulatory ecosystem, as shown by the UK's experience, to prevent state monopolies from being private monopolies.

## Objective of the study

Through the current study, the focus of the research analysis is to look at the effects of disinvestment on the efficiency of Central Public Sector Enterprises, namely IOC. This will determine if the expected performance improvement was achieved following the Disinvestment procedure. The purpose of this study is to look at the effects of disinvestment on IOC's performance. The examination of different Ratios is done to measure the performance of the specific firm. Ratio analysis is the most accurate indicator of a variety of operations, including operating and financial operations, to name a few. It aids in determining the company's financial health. A vital indicator of a company's performance throughout the period is ratio analysis.

## Methodology of Research Work

This research is based on secondary data gathered from IOC annual reports over the years. The entire data of ratio indicators are separated into two categories: early stages of disinvestment (before 2015) and later stages of disinvestment (after 2015) which provides a balanced time frame to study the efficiency changes in IOCL during the post-disinvestment period. Correlation and paired t-tests are used to acquire insights into the dynamics of the Disinvestment process on the firm. Entire statistical analysis is performed with the help of SPSS 25.



**Hypothesis of the Study**The following hypothesis has been investigated to achieve the study's main objective:

*Ho:* There is no significant change in the financial and operating performance of the Company- IOC

*H1:* There is a significant change in the financial and operating performance of the Company- IOC

**Table-1 Indian Oil Corporation – Financial Ratios**

RATIOS	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Debt-Equity Ratio	0.82	0.95	0.95	0.92	1.13	1.31	1.31	1.06	0.69	0.57	0.54	0.66	1
Current Ratio	0.84	0.76	0.74	0.81	0.84	0.87	0.89	0.88	0.8	0.7	0.66	0.68	0.65
Asset Turnover Ratio	4.84	5.53	4.33	4.33	4.44	4.66	4.63	4.05	3.74	4.22	4.13	4.49	3.73
Inventory Turnover Ratio	9.72	11.76	9.46	8.36	8.05	8.18	8.1	8.58	9.62	8.95	8.08	9.02	8.57
Debtors Turnover Ratio	39.87	51.7	49.62	48.84	45.97	45.33	45.17	53.34	56.87	56.47	55.5	48.34	41.02
Interest Coverage Ratio	7.34	2.29	9.97	4.37	3.05	1.87	2.62	2.82	6.42	8.6	10.28	6.78	2.26
Operating Margin (%)	5.32	3.67	6.49	4.57	5.14	3.64	3.82	3.01	6.08	7.95	8.35	5.98	3.86
Net Profit Margin (%)	2.58	1.08	3.51	2.08	2.47	1.05	1.17	0.88	2.76	4.22	4.13	2.73	2.17
Return On Capital Employed (%)	16.88	11.15	17.04	11.58	13.55	8.16	8.4	6.359	13.1	18.6	21.81	15.92	6.62
Return On Net Worth (%)	18.34	8.36	21.62	14.06	18.61	8.41	9.25	6.23	14.4	20.34	20.34	15.42	12.44

Source- Data compiled from IOC’s Financial Reports of respective years

The data for the study is presented in the form of ratios of several variables from 2008 to 2020 in the table above. This aids in the analysis of the IOC's performance.

**Table-2**

Paired Samples Statistics					
		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Pre	9.8343	10	13.90732	4.39788
	Post	11.4270	10	15.13891	4.78734

**Table-3**

Paired Samples Correlations				
		N	Correlation	Sig.
Pair 1	Pre & Post	10	.996	.000

**Table-4**

Paired Samples Test									
		Paired Differences				t	df	Sig. (2-tailed)	
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower				Upper
Pair 1	Pre - Post	-1.59275	1.81951	.57538	-2.89435	-.29115	-2.768	9	.022 significant



**Interpretation-**Using the correlation methodology, it is discovered that both data sets are highly associated. Further, the Paired Samples Test results show a substantial difference between the two sets of data—the first period of disinvestment and the post-disinvestment period—at a 95% confidence interval. As a result, *Ho*: There is no significant change in the financial and operating performance of the Company- IOC, cannot be accepted and *H1*: There is a significant change in the financial and operating performance of the Company- IOC-is confirmed to be correct. It may be stated that the company's overall performance has greatly improved after the disinvestment. This fact is further reinforced by the graph below, which displays a few selected ratios from various years (2010 - 2020).

**Conclusion-** The overall performance of a firm is a complex phenomenon that is influenced by a variety of internal and external influences such as regulations and operating practices. However, certain other external factors such as the business atmosphere often play a role in the overall performance of the company. The findings of the current analysis are evident in a very simple manner, suggesting that there may be other various reasons behind the company's mixed success in the intervening years. Over the post-disinvestment period, the company's overall success has improved.

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